

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2022

Docket No. ACR2022

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-13 OF CHAIRMAN'S INFORMATION REQUEST NO. 3**

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 3, issued on January 10, 2023. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. Please refer to the Postal Service's discussion of Money Orders in the FY 2022 ACR. FY 2022 ACR at 46-47.
 - a. Please discuss in detail the drivers behind unit costs increasing 12.2 percent in FY 2022.
 - b. Please describe any plans or impending initiatives the Postal Service has to review Money Orders' costs and steps it intends to take to reduce them in FY 2023 or future years.

RESPONSE:

a. As mentioned in the ACR, the domestic Money Orders unit cost increased 12.2 percent in FY 2022. This change is a result of an increase in the total attributable cost of 4.3 percent and a decrease in volume of 7.1 percent compared to the previous fiscal year.

b. Money Orders' costs are primarily attributed to the cost of window service activities and the debit card processing fees associated with the transaction. Unit piggybacked window service costs, a major driver for the unit cost growth, increased by 6.7 percent, or 12.0 cents, in FY 2022. A primary contributing factor to this increase was the 4.5 percent increase in the wage rate for window clerks (\$45.06 per hour vs. \$43.11). As mentioned in the recent OIG audit report (hereafter OIG Report) regarding Money Orders' trends and costs, window service costs for the product will continue to increase as wages rise. In FY 2022, piggybacked window services costs represented 73.2 percent of the total Money Orders attributable costs.

Additionally, supplies and services costs as reported in component 181 (16.1.2, Money Orders) increased by \$9.6 M in FY 2022. This component includes supply costs

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related to the manufacturing and printing of money orders, services related to the Bank Secrecy Act and reimbursements to the Federal Reserve.

Finally, separate finance numbers that were designed to track costs unambiguously caused by the provision of Money Orders, were appropriately attributed as product specific costs in FY 2022. These product specific costs included software, supplies, depreciation, and labor. The primary source for these costs was compliance with the Bank Secrecy Act, which requires monitoring for the purpose of detecting and preventing money laundering. The product specific costs attributed to Money Orders were tracked with separate finance numbers pertaining to Money Orders and reported in components 191 (18.1.1, Headquarters PS, \$0.001 million), 192 (18.1.2, Money Order Division PS, \$2.4 million), 210 (18.2.1, Supplies and Services PS, \$1.9 million) and 211 (18.2.2, Miscellaneous Support PS, \$0.9 million), 220 (19.2 Supplies and Services PS, \$0.036 million), 233 (20.1.2, Product Specific Equipment Depreciation, \$2.1 million), and 1437 (20.5.2, Other Interest PS, \$0.006 million). In aggregate, the FY 2022 attributable costs for domestic Money Orders included \$7.3 million in product specific costs, an increase of \$4.8 million compared to the previous fiscal year.

The increases in window activity, supplies and services, and product specific costs were partially offset by an 11.7 percent, or five cents, decline in unit debit card costs. Debit card costs are the second largest contributor, behind window costs, to the composition of attributable costs for Money Orders. In FY 2022, debit card fees associated with Money Orders totaled \$24.9 million or 37.6 cents on a unit basis.

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During FY 2022, the Postal Service secured a new payment processor contract to ensure transactions are routed to the lowest cost processing network (OIG Report at 5).

In sum, the increase in unit attributable costs for Money Orders was explained by higher window service, supplies, and product specific costs. These cost increases were only partially offset by lower unit debit card costs.

b. The attributable costs for Money Orders primarily include window service and debit card costs. Thus, any effort to reduce costs needs to focus on those two components. In the OIG Report at 5, the Postal Service agreed with recommendation number 1 to explore initiatives to reduce window costs by possibly identifying opportunities to offer the product more efficiently. Moreover, the Postal Service periodically negotiates with its debit card processing vendors (OIG report at 5) to reduce debit card fees for all products including Money Orders. Thus, the Postal Service has demonstrated a commitment to focus and try to reduce an impactful component of the attributable costs for Money Orders. However, Money Orders volume continues its secular decline. This decline in volume can be explained by a few factors, such as the proliferation of electronic payment alternatives and competition with other providers of similar financial instruments. However, the provision of Money Orders includes a material amount of product specific costs such as those incurred to comply with the Bank Secrecy Act. Product specific costs are expected to rise with wages as personnel are needed to perform the required financial monitoring. As such, declining volume

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coupled with high higher product specific costs, all else equal, will cause unit costs to increase.

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2. The reported FY 2022 cost coverage for Stamped Envelopes is 100.06 percent and for Collect on Delivery is 103.49 percent. FY 2022 ACR at 46. These represent substantial declines from the FY 2021 cost coverages for these Ancillary Services.
- a. Please describe in detail why the cost coverage for Stamped Envelopes fell from 140.64 percent in FY 2021 to 100.06 percent in FY 2022.
 - b. Please describe in detail why the cost coverage for Collect on Delivery fell from 145.29 percent in FY 2021 to 103.49 percent in FY 2022. In the discussion, please include the Postal Service's analysis of why cost per piece increased approximately 62 percent, from \$8.92 in FY 2021 to \$14.74 in FY 2022.
 - c. Please describe in detail any plans or impending initiatives the Postal Service has in place or intends to implement to address the falling cost coverage for Stamped Envelopes and Collect on Delivery in FY 2023 or future years.

RESPONSE:

a. The decline in cost coverage for Stamped Envelopes in FY 2022 is explained by the \$5.1 million decline in revenue coupled with a corresponding \$1.7 million decline in attributable costs. The revenue decline is explained by a 29 million (26.0 percent) drop in volume. Moreover, unit costs increased slightly as attributable costs fell by 20.5 percent. As such, the cost coverage for Stamped Envelopes fell to 100.06 percent.

b. The unit revenue increase of 17.7 percent (\$15.25) was more than offset by the 65.3 percent increase unit cost (\$14.74). These two outcomes caused the cost coverage to fall to 103.5 percent.

The primary reason for higher unit costs is an increase in the number of In-Office Cost System (IOCS) tallies from two to six between FY 2021 FY 2022. The change in the number of IOCS tallies is presented in USPS-FY22-37, workbook

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COD_Cost_Coverage_FY22, row 35. Specifically, in FY 2022 window tallies increased from zero to three, mail processing tallies increased from one to two, while city carrier in-office tallies remained steady with one tally in each of the last two fiscal years.

The small sample size for COD leads to very high coefficients of variation (CV) and wide confidence intervals for the estimated costs. The variation in the cost coverage between FY 2021 and FY 2022, although large in magnitude, were not statistically significant because of the high CV and corresponding wide confidence interval.

c. Other than the roughly four to five percent price increases applied to Stamped Envelopes and Collect on Delivery in Docket No. R2023-1, no such plans or initiative have been identified.

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3. Please refer to Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-22 of Chairman's Information Request No. 9, February 7, 2022, question 1. With its response, the Postal Service provided a spreadsheet titled "ChIR.9.Q.1.FY21 – Employee Availability Data" which detailed employee availability by function for FY 2021. Please provide employee availability in total and by function (*i.e.*, separately for mail processing, delivery services, and customer service), disaggregated by month for FY 2022, using the same filters to extract the data as those used for the FY 2021 spreadsheet.

RESPONSE:

Please see the Excel file associated with this response in the zip file electronically-attached to this set of responses.

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4. Please refer to Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-19 of Chairman's Information Request No. 8, February 4, 2022, question 4. In its response, the Postal Service provided a list of Districts that experienced monthly employee availability levels of less than 70 percent during FY 2021. *Id.*
- a. Please provide an updated table reflecting all Districts that experienced monthly employee availability levels of less than 70 percent during FY 2022.
 - b. Please confirm that the 70 percent threshold remains "empirically . . . most effective for distinguishing particularly-challenged Districts . . ." with respect to employee absenteeism.¹ If not confirmed, please explain.
 - c. In the FY 2021 list, please explain why some Districts are identified as either "Logistics" or "Processing." In the response, please describe in detail how the two functions differ.
 - d. In the FY 2021 list, for any Districts that are not identified according to "Logistics" or to "Processing" functions, please confirm that both "Logistics" and "Processing" functions described in the response above occur within that District. If not confirmed, please explain.
 - e. Please describe in detail the functions covered by the "ISC Logistics" District. In the response, please indicate whether the Postal Service considers this to constitute its own geographic District.

RESPONSE:

- a. Please see the Excel file associated with this response in the zip file electronically-attached to this set of responses.
- b. Confirmed
- c. As part of the organizational restructuring, retail and delivery Districts have separate reporting structures from mail processing and logistics Divisions. Post offices report to Districts, while plants report to Divisions. Logistics includes postal vehicle

¹ See Docket No. ACR2020, Responses of the United States Postal Service to Questions 1-16 of Chairman's Information Request No. 11, February 11, 2021, question 13.b.

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service drivers and management, while Processing includes mail processing employees and management. Districts and Divisions overlap geographically, but they have separate management structures and are reported on as separate entities.

d. Not confirmed. Logistics and Processing Divisions are separate entities from Districts, as discussed in part c.

e. Prior to FY 2022, ISCs were considered a separate entity with their own management structure. In FY 2022, ISC *Processing* came under the management of the geographic Division in which they are located, but that redistribution did not extend to ISC *Logistics*. Thus, ISC Logistics has continued as a separate management entity relating to the ISCs in New York, Miami, Chicago, San Francisco, and Los Angeles, but does not constitute its own geographic District or Division.

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5. Please refer to Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-29 of Chairman's Information Request No. 1, January 18, 2022, question 28 (Docket No. ACR2021, Responses to CHIR No. 1). In its response, the Postal Service provided information on the causes attributed to Critically Late Trips (CLTs) and the initiatives aimed at addressing them. *Id.*
- a. Please provide the total number of CLTs, disaggregated by cause, for each month of FY 2022. Please note any deviation from the criteria used by the Postal Service to assign late reason codes in FY 2021.
 - b. Please identify the initiatives used by the Postal Service to remedy or mitigate each category of causes of CLTs in FY 2022.

RESPONSE:

- a. Please see the Excel file associated with this response in the zip file electronically-attached to this set of responses. The total number of CLTs, disaggregated by cause, for each month of FY 2022 is available in tab "FY2022 CLTs." Differences between the reason codes used in FY 2022 and FY 2021 are noted in tab "Reason Codes."
- b. Initiatives to mitigate and remedy CLTs focus on achieving operational clearance time, addressing supplier performance, and training and developing employees. In order to reduce the root cause of "mail not ready for transportation" due to late processing and containers not ready for load, the Postal Service has continued to retain the increased complement levels in mail processing that were added in FY21 and FY22 to improve processing clearance. The Postal Service also continues to increase package sort capacity and adjust and refine each facility's operating plan in order to ensure that each facility meets necessary clearance times to depart trips to meet service standards. Additionally, Operating Plan Precision (OPP) is measured daily by

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Headquarters Mail Processing Operations to understand performance levels and ensure that each facility is timely completing distribution operations and that the mail is ready for transportation. By striving to improve OPP, the Postal Service will also improve service performance and make sure that mail is timely dispatched on the planned routing to achieve the required service standards. To further improve performance, the Postal Service has undertaken daily review of all routings to ensure surface responsiveness and compliance with expected service performance. These initiatives have been instrumental in increasing insight into routing, labeling, and dispatching of mail, which has further streamlined and improved the overall routing and service performance.

Moreover, the Postal Service has continued Silver Track Training (STT) for field personnel. These sessions are designed to advance these employees' education, with a specific focus on improving and managing supplier performance. STT is for all our logistics professionals, including Transportation Managers, Network Specialists, Operational Industrial Engineers, and Operational Support Specialists, and is designed to inform, guide, and direct these employees about how to properly manage routes and administrative responsibilities, how to hold themselves and suppliers accountable, and how to provide feedback to continue to improve programs and policies. Since March of 2022, with respect to STT transit initiatives, in-person learning at the National Training Center in Norman, Oklahoma has resulted in the completion of 36 training classes, with a total of 480 Logistics personnel completing this training. STT has helped the Postal Service improve supplier performance including by, among other things, contributing to

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the reduction in the number of omitted trips; trips are beginning to show on time performance above the same period last year.

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6. Please refer to Docket No. ACR2021, Responses to CHIR No. 1, question 29.d. In its response, the Postal Service stated that it was exploring the inclusion of liquidated damages clauses in its contracts with suppliers at fault for CLTs. *Id.*
- a. Did the Postal Service include any liquidated damages clauses in its contracts with suppliers in FY 2022? If not, please explain why not.
 - b. Please describe in detail the outcome of the Postal Service's consideration of inclusion of liquidated damages and the rationale underlying any final decision. If consideration is still ongoing, please describe in detail any progress that has been made and provide a timeline for any final decisions.

RESPONSE:

- a. No liquidated damages clauses were added to supplier contracts relating to fault for Critically Late Trips (CLTs) in FY 2022 because, as explained in the response to subpart b below, the tools and processes needed to measure and assess supplier responsibility for CLTs are still in development.
- b. The Postal Service still intends to implement liquidated damage contract clauses for suppliers in some form to address supplier responsibility for CLTs. To that end, a new transportation management system is being developed that will be connected to the new Global Positioning System visibility platform. The Postal Service expects that most suppliers, along with their equipment, will be integrated into these systems by the end of FY 2023. This system will provide a robust measuring tool to identify late shipments and begin to perform a root cause analysis on the failures. Once those conditions are in place, supplier contracts can be updated to reflect an efficient way to address supplier responsibility for CLTs.

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7. The Postal Service states that “[i]n FY 2022, the nation achieved 85.07 percent Operating Plan Precision, compared with the goal of 70 percent.”² Please identify the Operating Plan Precision goal for FY 2023 and describe the criteria, data, and methodology used to develop the FY 2023 goal.

RESPONSE:

The Operating Plan Precision goal for FY 2023 is 79.00.

It is important to understand that the components measured within Operating Plan Precision (OPP) changed between FY 2022 and FY 2023, so the goals and performance are not directly comparable. As illustrated in the table below, Manual Incoming Primary (INP) and Manual Outgoing Primary (OGP) measured operations were both removed from measurement for FY 2023 and Truck Departures was added on the basis that timely truck departures have a greater impact on OPP than the manual operations.

FY 2022 Measured Operations	FY 2023 Measured Operations
Letter Cancellations	Letter Cancellations
Letter OGP	Letter OGP
Letter Outgoing Secondary (OGS)	Letter OGS
Letter DPS2	Letter DPS2
Flat OGP	Flat OGP
Flat OGS	Flat OGS
Flat AFSM CR	Flat AFSM CR
FSS	FSS
Mech Sorter INP	Mech Sorter INP
Mech Sorter OGP	Mech Sorter OGP
Auto Sorter INP	Auto Sorter INP

² Library Reference USPS-FY22-29, December 29, 2022, PDF file “FY22-29 Service Performance Report.pdf,” at 12 (FY 2022 Service Performance Report).

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Auto Sorter OG FCP	Auto Sorter OG FCP
Auto Sorter OGP	Auto Sorter OGP
Manual INP	Truck Departures
Manual OGP	

To develop the FY 2023 goal, FY 2022 actual performance was recast using the FY 2023 components to produce baseline performance. While the nation achieved 85.07 percent OPP using the FY 2022 components, when the FY 2023 components are used for FY 2022, the national score becomes 78.21 percent OPP with the average across all sites at 76.71 percent. The formula used is straightforward: the score is the cumulative percentage of measured operations achieving operating plan based on site specific designed operating plans during the fiscal year. An individual site is scored based only on the operations conducted within the facility; therefore, a site could be measured on 1-14 measured operations on any given day. Because sites are unique and operations conducted within the facility can change from day to day, each day is measured individually and added to cumulative YTD data. As an example, a site may have 12 operational groupings conducted and scored on Thursday but only 6 operational groupings conducted and scored on Saturday. If the site achieves 9 out of 12 on Thursday (75.00 percent) and 5 out of 6 on Saturday (83.33 percent), the combined scored would be 14 / 18 (77.78 percent).

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8. The Postal Service contends that “the removal of excess Flat Sequencing System (FSS) machines that were not needed to process current volumes at select sites” resulted in these sites becoming “more efficient with their remaining FSS machines.” *Id.* at 13. Please provide quantitative support for this statement and identify the metric(s) used. If quantitative support is unavailable for an identified impact, please explain why it is unavailable and provide qualitative analysis in support of the statement.

RESPONSE:

Overall, throughputs improved modestly in sites that removed one or more FSS machine and continued FSS processing. Across these sites, average throughput improved from 13,123 pieces per hour in the first four weeks of FY 2021 to 13,480 pieces per hour in the same period of FY 2022.

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9. With respect to its plans to improve service performance for Post Office™ Box Service in FY 2023, the Postal Service states that it “recognizes potential opportunities to leverage new technologies to aid in performance improvements going forward” including “scanner upgrades and new Retail System Software (RSS) messaging capabilities.” *Id.* at 32-33. Please describe in detail how the Postal Services envisions using these new technologies to improve service performance. In the response, please specify if the improvements are specific to Post Office™ Box Service or apply to other products (and if the latter, identify such products).

RESPONSE:

To understand how new technologies might be enlisted to improve P.O. Box service performance, it is useful to recall a key aspect of P.O. Box service: namely, “P.O. Box Distribution Up-Time,” *i.e.*, the time of day at which mail should be distributed to P.O. Boxes. In that regard, any means that can facilitate communication with employees in the field (particularly in the daily interval leading up to the P.O. Box Distribution Up-Time) should tend to support the timely distribution of P.O. Box mail; and the technologies referenced in this Information Request might possibly afford such a means.

For example, the Postal Service is currently exploring the possibility of sending reminders to field management, via recently deployed scanners, of P.O. Box Distribution Up-Times. (The mechanism here described would target P.O. Box performance specifically).

RSS can likewise serve to facilitate communication with the field by means of its “Memo Message” capability, which displays easily accessible messages on retail clerk screens. This should help keep retail clerks informed of Postal Service rules and

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Guidelines, which themselves may bear on service performance. By thus establishing an additional point of contact through which important information may be conveyed, RSS might reasonably be expected to improve performance at retail locations, including—possibly—the timely distribution of mail to P.O. Boxes.

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- 10.** Please provide the volume and percent of Market Dominant mail measured by Full-Service Intelligent Mail Barcode (IMb) in FY 2022, disaggregated by mail class (*i.e.*, First-Class Mail, USPS Marketing Mail, Periodicals, and Package Services). Please present results disaggregated by fiscal quarter and the total for the fiscal year.

RESPONSE:

Please refer to accompanying Excel file 'ChIR No 3 - Response to Questions 10 and 11.xlsx' associated with this response in the zip file electronically attached to this set of responses.

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- 11.** Please provide the information requested in the following table for FY 2022 and in the response, for any data that are either "Not Applicable" or "Not Available," please describe in detail why:

Product	Percentage of Mail in Measurement	Percentage of Mail entered at Full-Service IMb prices and included in measurement	Percentage of Mail Processed as Full-Service IMb, but excluded from measurement
First-Class Mail			
Presorted Letters/Postcards			
Flats			
USPS Marketing Mail			
High Density and Saturation Letters			
High Density and Saturation Flats/Parcels			
Carrier Route			
Letters			
Flats			
EDDM-Retail			
Parcels			
Total USPS Marketing Mail			
Periodicals			
In-County			
Outside County			
Package Services			
Bound Printed Matter Flats			
N/A = Not Applicable			
Not Available = The Postal Service does not have this information available.			

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RESPONSE:

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For "Not Available" and "Not Applicable" entries:

EDDM-Retail product is not full-service, thus both the "Percentage of Mail entered at Full-Service IMb prices and included in measurement" and "Percentage of Mail Processed as Full-Service IMb, but excluded from measurement" are not applicable.

USPS Marketing Mail Parcels are not part of the full-service IMb mailpieces as these are packages and have an IMpb (intelligent mail package barcode), thus both the "Percentage of Mail entered at Full-Service IMb prices and included in measurement" and "Percentage of Mail Processed as Full-Service IMb but excluded from measurement" are not applicable.

With respect to data non-availability for Periodicals In-County and Outside County, please see the response to Question 2 of Chairman's Information Request No. 1 in PRC Docket No. PI2016-1.

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- 12.** Please confirm that, as a result of COVID-related employee unavailability, the Postal Service was required to divert employees from manual operations to automated and mechanized operations in FY 2022.³
- a. If confirmed, please refer to Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-36 of Chairman's Information Request No. 2, January 25, 2022, question 9, in which the Postal Service stated that it "is unable to quantify the number of employees diverted from manual to automated processing operations in FY 2021 as a result of COVID-related employee unavailability." Please confirm whether the Postal Service remains unable to quantify this number.
 - i. If confirmed, please explain why.
 - ii. If not confirmed, please provide the number of employees diverted from manual to automated processing operations in FY 2022.
 - b. If not confirmed, please describe in detail the reasons why the Postal Service was no longer required to divert employees from manual operations to automated and mechanized operations.

RESPONSE:

Not confirmed.

- a. Not applicable.
- b. Overall, it was not necessary for the Postal Service to divert employees from manual operations to automated and mechanized operations in FY 2022 as a result of COVID-related employee unavailability since the impact of COVID-19 on employee availability lessened in FY 2022 compared to FY 2021 and mail processing staffing was greater in most months of FY 2022 because of conversions and hiring.

³ See Docket No. ACR2021, Library Reference USPS-FY21-29, December 29, 2021, file "FY21-29 Service Performance Report.pdf," at 11.

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- 13.** Please refer to Docket No. ACR2021, Responses of the United States Postal Service to Chairman's Information Request No. 30, May 2, 2022, question 1. Please confirm that the Postal Service's description of the measurement criteria, tracking, and reporting remains applicable in FY 2022. If not confirmed, please explain.

RESPONSE:

Confirmed.